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RANKING MINORITY MEMBER
SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
CREDIT CARD PRACTICES:
UNFAIR INTEREST RATES IINCREASES
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Mr. Chairman, I want to thank you for continuing this important examination into credit card industry practices.

We see every day how much the world has changed. Not that long ago, when we were starting out, credit was something you had to earn. You made a case to a banker or a mortgage company that you were indeed capable of making payments. No more. It seems every time we go to the mailbox we're fighting off people who want to lend us money, and this easy credit has gotten a lot of folks into trouble.

Lately it seems that you cannot read a newspaper or turn on the television without encountering stories about the credit crisis in the housing market. And while mortgage lending differs from credit card lending, the areas are related. In fact, a chief economist at Moody's Economy.com recently drew a clear link between the current mortgage crisis on the one hand and the problem of credit card debt on the other, saying, quote: "Homeowners are unable to borrow against their homes, so they are turning back to their credit cards." My point is that, while credit card debt may seem like a very personal problem, it clearly has implications for the entire nation, and we should make no mistake: *the credit crunch is very real*.

We have spoken to folks from my home state of Minnesota about certain credit card practices, and they are very frustrated. Minnesota families find themselves *ensnared* in a seemingly inescapable web of credit card debt. They particularly report being saddled with interest rates that skyrocketed on them seemingly out of the blue.

I want to pause here over that one expression: "out of the blue." Folks out there are actually feeling *ambushed*. They feel like they're not getting sufficient *notice* of interest rate increases, and credit card companies need to do a better job here. Some of the witnesses we'll hear from today will report not receiving (or at least not reading) change-in-terms notices. But frankly, the problem is that, even when read, these notices seem written *by and for lawyers* with an eye more toward staving off litigation rather than educating and providing notice to consumers.

To be sure, over the past 20 years the credit card industry has created financial opportunities for countless Americans by extending credit to a far broader pool of borrowers than other lenders, including many high-risk borrowers who would not otherwise have obtained credit. This democratization of credit has been a boon for America – for consumers and the credit card industry alike. As we move forward, however, we must be mindful not to throw the baby out with the bathwater. We must be mindful of the unintended consequences that sometimes result from federal regulation of the marketplace – consequences like higher average interest rates for all cardholders, the return of high annual fees, and a reduction in the availability of credit to folks with less-than-stellar credit scores.

I want to be clear: I fully understand that the democratization of credit has also brought greater complexity and greater vulnerability, and the reality is that many Americans continue to believe that the credit card system is rigged against them. But in addressing that problem, let's make sure that we don't inadvertently harm the very people we're trying to protect.

With that in mind, I challenged the industry at our hearing last March to clean up its own act so that the federal government wouldn't have to. In the aftermath of that hearing, I worked personally with industry representatives and directed my staff to work with credit card companies to help hammer out common-sense solutions to these challenges.

I'm happy to report that some credit card companies have begun the clean-up. Several have recognized the inadequacies of their disclosures and have worked with the Federal Reserve to propose new, clearer formats to better provide truly effective notice.

Even more encouraging, certain issuers have taken truly bold steps to reform their policies and practices. This year alone, JP Morgan Chase has improved its disclosures, eliminated double-cycle billing, changed its practices with respect to over-the-limit fees, and, just last month, promised never to increase a cardholder's rate based on credit bureau information. Capital One has essentially the same policy. Similarly, Citi has agreed not to re-price customers who are in good standing more than once every two years.

These are all important steps. They constitute serious self-reform, and I applaud these companies for their leadership. Credit card companies like Chase, Capital One, and Citi are starting to realize that there is a benefit to be had, a *competitive* advantage to offering fair, consumer-friendly policies. Recently-initiated plans like Chase's "Clear & Simple" or Citi's "A Deal is a Deal" offer consumers a new level of transparency and predictability in managing their credit card obligations.

But more needs to be done. More credit card companies need to follow these companies' leads in combating the public's impression that issuers design hair-trigger default rules, out-of-the-blue interest rate hikes, and stingy cure policies that can entangle unsuspecting consumers. A cardholder should never be *startled* by a rate hike.

In short, more credit card companies need to make their policies *transparent* and *predictable*, and you do this by focusing on one thing: <u>notice</u> – clear, user-friendly disclosures and common-sense, straight-forward alerts to changes in a card's terms.

I look forward to working with our witnesses and with Chairman Levin to create a more consumer-friendly lending environment in the future.

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